

**GMG**  
**COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2010

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**GMG COMMUNITY SCHOOL DISTRICT**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education**

**(Before September 2009 Election)**

Linda Havelka	President	2011
Kathy Beane	Vice President	2009
Merle Applegate		2009
Rick Landt		2011
Jim Fleming		2011
Kevin Bovenmeyer		2009
Allen Burt		2009

**(After September 2009 Election)**

Linda Havelka	President	2011
Jim Fleming	Vice President	2011
Merle Applegate		2013
Rick Landt		2011
Kathy Beane		2013
Kevin Bovenmeyer		2013
Jon Espenscheid		2013

**School Officials**

Michael Ashton	Superintendent
Deb Stahl	District Secretary/ Treasurer

# BRUCE D. FRINK

## Certified Public Accountant

### Independent Auditor's Report

#### Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

#### Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Bank Loan Assistance

#### Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

To the Board of Education of  
GMG Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund and of GMG Community School District, Garwin, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund of GMG Community School District at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 3, 2011 on our consideration of GMG Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 12 and 34 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise GMG Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2009 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The financial statements for the seven years ended June 30, 2007 (which are not presented herein) were audited by other auditors, in accordance with the standards referred to in the second paragraph of this report, who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bruce D. Frink*

**BRUCE D. FRINK**  
**Certified Public Accountant**

March 3, 2011

## **GMG COMMUNITY SCHOOL DISTRICT**

### **Management's Discussion and Analysis**

GMG Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

#### **2010 FINANCIAL HIGHLIGHTS**

- The District received a preschool grant from the State of Iowa. This accounts for additional enrollment of 16.2 students.
- General Fund revenues decreased from \$4,323,876 in fiscal 2009 to \$4,279,210 in fiscal 2010, (a one percent decrease) while General Fund expenditures increased from \$4,288,512 in fiscal 2009 to \$4,388,700 in fiscal 2010 (a two percent increase).
- The decrease in General Fund revenues was primarily attributable to decreases in state revenues. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. The General Fund balance decreased due to state revenues being cut 10% in the middle of the year.
- The statewide sales, services and use tax continues to be collected by the District. These monies are being used for improvements to district facilities and debt reduction. This tax allows the District to update its facilities for an expanding enrollment without raising property taxes.
- The District is nearing completion of a construction project at the high school including an addition to and remodeling of existing facilities. It is being financed with a combination of general obligation and sales tax revenue bonds.

#### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of GMG Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report GMG Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which GMG Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the Student Activity and Agency Funds as well as a multiyear comparison of revenues and expenses.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**

**GMG Community School District Annual Financial Report**

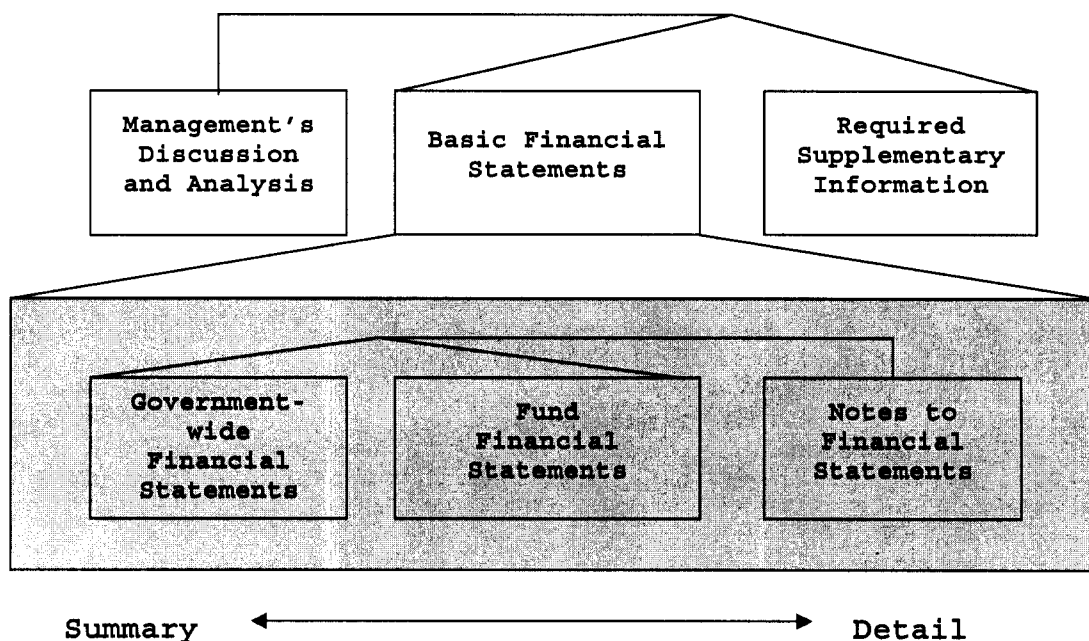


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**  
**Major Features of the Government-wide and Fund Financial Statements**

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Fund	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activity the District operates similar to private businesses: food services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid



## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The District has elected to present all funds as "major" for clarity of presentation.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses, changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others.

- *Agency Funds* - These are funds through which the District administers and accounts for funds from the Kienzle Farm.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for agency funds include a statement of fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

<p style="text-align: center;"><b>Figure A-3</b>  <b>Condensed Statement of Net Assets</b>  <b>(Expressed in Thousands)</b></p>							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-2010
Current assets	\$ 4,643	7,548	32	44	4,675	7,592	-62.40%
Capital assets	7,446	4,517	33	43	7,479	4,560	39.03%
Total assets	12,089	12,065	65	87	12,154	12,152	0.02%
Current liabilities	2,476	2,233	14	14	2,490	2,247	9.76%
Non-current liabilities	6,674	6,610	-	-	6,674	6,610	0.96%
Total liabilities	9,150	8,843	14	14	9,164	8,857	3.35%
Net Assets							
Invested in capital assets, net of related debt	796	1,927	33	43	829	1,970	-137.64%
Restricted	1,235	271	-	-	1,235	271	78.06%
Unrestricted	908	1,024	18	30	926	1,054	-13.82%
Total net assets	\$ 2,939	3,222	51	73	2,990	3,295	-10.20%

Combined net assets decreased primarily as a result of the depreciation of capital assets exceeding the purchases. The District has taken advantage of the statewide sales, services and use tax to expand its facilities in recent years. Unrestricted assets fell due to the midyear cut in state sources of revenue.

Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-4							
Changes in Net Assets							
(Expressed in Thousands)							
Governmental Activities		Business Type Activities		Total School District		Total Change	
2010	2009	2010	2009	2010	2009	2009-2010	
Revenues:							
Program revenues:							
Charges for service and sales	\$ 978	984	132	138	1,110	1,122	-1.07%
Operating grants, contributions and restricted interest	1,009	859	107	102	1,116	961	16.13%
General revenues:							
Property tax	1,630	1,634	-	-	1,630	1,634	-0.24%
Income surtax	152	142	-	-	152	142	7.04%
Statewide sales, services and use tax	204	209	-	-	204	209	-2.39%
Unrestricted state grants	1,053	1,281	-	-	1,053	1,281	-17.80%
Unrestricted investment earnings	15	30	-	-	15	30	-50.00%
Other	48	34	-	-	48	34	41.18%
Total revenues	5,089	5,173	239	240	5,328	5,413	-1.57%
Program expenses:							
Governmental activities:							
Instruction	3,247	3,180	-	-	3,247	3,180	2.11%
Support services	1,238	1,102	-	-	1,238	1,102	12.34%
Non-instructional programs	-	-	261	246	261	246	6.10%
Other expenses	887	420	-	-	887	420	111.19%
Total expenses	5,372	4,702	261	246	5,633	4,948	13.84%
Change in net assets	\$ (283)	471	(22)	(6)	(305)	465	-165.59%

Property tax and unrestricted state grants account for 50% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 80% of the total expenses. Construction costs and debt services in FY10 lowered the percentage of total expenses spent on instruction and support services, however, expenses in those areas increased 7% as the District continues to focus on direct student needs.

## Governmental Activities

Revenues for governmental activities were \$5,089,674 and expenses were \$5,372,358 for the year ended June 30, 2010.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, and other expenditures, for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-5 Total and Net Cost of Governmental Activities (Expressed in Thousands)						
	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-2010	2010	2009	Change 2009-2010
Instruction	\$ 3,247	3,180	2.11%	1,427	1,478	-3.45%
Support services	1,238	1,102	12.34%	1,226	1,083	13.20%
Other expenses	887	420	111.19%	732	299	144.82%
Totals	\$ 5,372	4,702	14.25%	3,385	2,860	18.36%

For the year ended June 30, 2010:

- The cost financed by users of the District's programs was \$978,243.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$710,842. Increased federal funding did not fully offset cuts in state sources.
- The net cost of governmental activities was financed with \$1,630,755 in property tax, and \$1,053,010 in state foundation aid.

## Business-Type Activities

Revenues for business type activities during the year ended June 30, 2010 were \$239,116 and expenses totaled \$260,752. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted GMG Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,051,941 a large decrease from last year's ending fund balances of \$5,210,472. This is almost entirely due to the spending of funds for new construction and remodeling at the high school. This money was from FY09 bond issues. FY11 will also have a decrease as the project is completed.

## Governmental Fund Highlights

- The District's General Fund balance decreased as a result of decreased state source revenues. Allowable growth of 4% or less is inadequate to keep up with increasing enrollment requirements.
- The District continues to expand its facilities through the use of statewide sales, services and use tax revenues.

- The District's open enrollment in has continued to increase. This will allow the District to continue to grow. The District also received a state grant for preschool which allowed them to count attendees in four year old preschool in the certified enrollment.

### Proprietary Fund Highlights

The School Nutrition fund decreased during the year by 30%. The District is looking for means of reversing this trend.

### BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 34 and 35.

### Legal Budgetary Highlights

The District's receipts were over \$300,000 less than budgeted receipts, a variance of 5%. The variance resulted from the District receiving less state source revenue than originally anticipated.

Total expenditures were less than budgeted in total, due primarily to the District's budget for the General Fund. The District then manages or controls spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. The District exceeded the budgeted amount in the non-instructional programs function. It did not exceed its General Fund unspent authorized budget.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2010, the District had invested \$7.4 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$187,770.

The original cost of the District's capital assets was \$11,532,725. Governmental funds account for \$11,399,540, with the remainder of \$133,185 accounted for in the Proprietary, School Nutrition Fund.

**Figure A-6**  
**Capital Assets, net of Depreciation**  
**(Expressed in Thousands)**

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-2010
Land	\$ 55	55	-	-	55	55	0.00%
Construction in progress	3,468	534	-	-	3,468	534	549.44%
Buildings	3,607	3,698	-	-	3,607	3,698	-2.46%
Furniture and equipment	316	230	33	43	349	273	27.84%
Totals	\$ 7,446	4,517	33	43	7,479	4,560	64.01%

## Long-Term Debt

At June 30, 2010, the District had \$6,365,000 in general obligation and revenue bonds. Additional information about the District's long-term debt is presented in Note 4 to the financial statements.

In fiscal year 2010, the District borrowed \$300,000 from the USDA to assist in completing the construction of an addition to the existing high school.

Figure A-7 Outstanding Long-Term Obligations (Expressed in Thousands)			
	Total District	Total Change	
	June 30, 2010	June 30, 2009	2009-2010
General obligation bonds	\$ 4,710	4,910	-4.07%
Revenue bonds	1,655	1,700	-2.65%
USDA Rural Economic Development Loan	285	-	100.00%
Other postemployment benefits	24	-	100.00%
Total	\$ 6,674	6,610	0.97%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Statewide sales, services and use tax is being used for various building/remodeling projects and property tax relief throughout the District.
- The District has experienced increasing open enrollment in over the past several years. This allows the District to provide programs without increasing property taxes.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired).
- Health insurance continues to be a very costly item to the District. Even though concessions have been made by employees in regard to deductibles and coinsurance, other solutions need to be found. The skyrocketing cost of health care and the insurance to cover the cost will soon be unattainable by many.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deb Stahl, District Secretary, GMG Community School District, 306 Park Street, Garwin, IA 50632.

## **Basic Financial Statements**

## GMG COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2010

		Business Type Activities	
	Governmental Activities	School Nutrition	Total
<b>Assets</b>			
Cash and pooled investments	\$ 2,625,182	19,047	2,644,229
Receivables:			
Property tax:			
Current year	21,408	-	21,408
Succeeding year	1,657,969	-	1,657,969
Income surtax - succeeding year	136,676	-	136,676
Due from other governments	202,018	-	202,018
Other receivables	445	-	445
Inventories	-	12,295	12,295
Capital assets, net of accumulated depreciation	7,445,663	33,482	7,479,145
<b>Total assets</b>	<b>\$ 12,089,361</b>	<b>64,824</b>	<b>12,154,185</b>
<b>Liabilities</b>			
Accounts payable	351,627	-	351,627
Accrued payroll and benefits	445,485	13,644	459,129
Accrued interest payable	21,164	-	21,164
Unearned revenues	-	321	321
Deferred revenue:			
Succeeding year property tax	1,657,969	-	1,657,969
Long term liabilities:			
Portion due within one year:			
USDA Rural Economic Development Loan	30,000	-	30,000
General obligation bonds	210,000	-	210,000
Revenue bonds	55,000	-	55,000
Portion due after one year:			
Net OPEB liability	24,040	-	24,040
USDA Rural Economic Development Loan	255,000	-	255,000
General obligation bonds	4,500,000	-	4,500,000
Revenue bonds	1,600,000	-	1,600,000
<b>Total liabilities</b>	<b>9,150,285</b>	<b>13,965</b>	<b>9,164,250</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	795,663	33,482	829,145
Restricted for:			
Management levy	73,795	-	73,795
Debt service	6,807	-	6,807
Physical plant and equipment levy	1,548	-	1,548
Capital projects	1,140,568	-	1,140,568
Categorical funding	36,778	-	36,778
Unrestricted	883,917	17,377	901,294
<b>Total net assets</b>	<b>\$ 2,939,076</b>	<b>50,859</b>	<b>2,989,935</b>

See notes to financial statements.



## GMG COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:	\$ 3,247,647	978,243	841,918	(1,427,486)	-	(1,427,486)
Support services:						
Student services	19,623	-	-	(19,623)	-	(19,623)
Instructional staff services	122,597	-	-	(122,597)	-	(122,597)
Administration services	517,862	-	-	(517,862)	-	(517,862)
Operation and maintenance of plant services	360,622	-	11,934	(348,688)	-	(348,688)
Transportation services	217,145	-	-	(217,145)	-	(217,145)
	1,237,849	-	11,934	(1,225,915)	-	(1,225,915)
Other expenditures:						
Facilities acquisition	292,518	-	7,228	(285,290)	-	(285,290)
Interest on long-term debt	267,874	-	12	(267,862)	-	(267,862)
Service fees on long-term debt	950	-	-	(950)	-	(950)
AEA flowthrough	147,736	-	147,736	-	-	-
Depreciation (unallocated)*	177,784	-	-	(177,784)	-	(177,784)
	886,862	-	154,976	(731,886)	-	(731,886)
Total governmental activities	5,372,358	978,243	1,008,828	(3,385,287)	-	(3,385,287)

GMG COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2010

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Business type activities:						
Non-instructional programs:						
Nutrition services	260,752	132,280	106,836	-	(21,636)	(21,636)
Total	<u>\$ 5,633,110</u>	<u>1,110,523</u>	<u>1,115,664</u>	<u>(3,385,287)</u>	<u>(21,636)</u>	<u>(3,406,923)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 1,174,458	-	1,174,458
Management Fund				69,919	-	69,919
Debt service				386,378	-	386,378
Income surtax				152,193	-	152,193
Statewide sales, services and use tax				203,699	-	203,699
Unrestricted state grants				1,053,010	-	1,053,010
Unrestricted investment earnings				15,055	-	15,055
Other				47,891	-	47,891
Total general revenues				<u>3,102,603</u>	<u>-</u>	<u>3,102,603</u>
Change in net assets				(282,684)	(21,636)	(304,320)
Net assets beginning of year				<u>3,221,760</u>	<u>72,495</u>	<u>3,294,255</u>
Net assets end of year				<u>\$ 2,939,076</u>	<u>50,859</u>	<u>2,989,935</u>

\* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

## GMG COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2010

	Assets						
	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Debt Service	Capital Projects	Total
Cash and pooled investments	\$ 1,084,700	40,784	72,877	1,548	1,735	1,423,538	2,625,182
Receivables:							
Property tax:							
Current year	15,418	-	918	-	5,072	-	21,408
Succeeding year	1,171,641	-	95,000	-	391,328	-	1,657,969
Income surtax - succeeding year	136,676	-	-	-	-	-	136,676
Other receivables	-	445	-	-	-	-	445
Due from other governments	133,361	-	-	-	-	68,657	202,018
Total assets	\$ 2,541,796	41,229	168,795	1,548	398,135	1,492,195	4,643,698
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ -	-	-	-	-	351,627	351,627
Accrued payroll and benefits	445,485	-	-	-	-	-	445,485
Deferred revenue:							
Succeeding year property tax	1,171,641	-	95,000	-	391,328	-	1,657,969
Succeeding year income surtax	136,676	-	-	-	-	-	136,676
Total liabilities	1,753,802	-	95,000	-	391,328	351,627	2,591,757
Fund balances:							
Reserved for:							
Categorical funding	36,778	-	-	-	-	-	36,778
Debt service	-	-	-	-	6,807	-	6,807
Unreserved, reported in:							
Capital projects	-	-	-	-	-	1,140,568	1,140,568
Special revenue	-	41,229	73,795	1,548	-	-	116,572
General fund	751,216	-	-	-	-	-	751,216
Total fund balances	787,994	41,229	73,795	1,548	6,807	1,140,568	2,051,941
Total liabilities and fund balances	\$ 2,541,796	41,229	168,795	1,548	398,135	1,492,195	4,643,698

See notes to financial statements.

## GMG COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2010

Total fund balances of governmental funds (Exhibit C)	\$ 2,051,941
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**Amounts reported for governmental activities in the Statement of Net Assets are different because:**

Income surtax receivable at June 30, 2009 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	136,676
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	7,445,663
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	(21,164)
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds:

Other postemployment benefits	(24,040)	
USDA Rural Economic Development Loan	(285,000)	
General obligation bonds	(4,710,000)	
Revenue bonds	<u>(1,655,000)</u>	<u>(6,674,040)</u>

<b>Net assets of governmental activities (Exhibit A)</b>	<b><u>\$ 2,939,076</u></b>
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## GMG COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

Year ended June 30, 2010

	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Debt Service	Capital Projects	Total
Revenues:							
Local sources:							
Local tax	\$1,316,067	-	69,919	-	386,378	203,699	1,976,063
Tuition	978,243	-	-	-	-	-	978,243
Other	73,312	120,710	9,171	2,763	12	7,228	213,196
State sources	1,575,487	-	-	-	-	-	1,575,487
Federal sources	336,101	-	-	-	-	-	336,101
Total revenues	4,279,210	120,710	79,090	2,763	386,390	210,927	5,079,090
Expenditures:							
Instruction	3,079,222	114,128	30,257	-	-	-	3,223,607
Support services:							
Student services	19,623	-	-	-	-	-	19,623
Instructional staff services	122,597	-	-	-	-	-	122,597
Administration services	497,570	-	20,292	-	-	-	517,862
Operation and maintenance of plant services	314,432	-	46,190	-	-	-	360,622
Transportation services	207,520	-	9,625	6,750	-	-	223,895
	1,161,742	-	76,107	6,750	-	-	1,244,599

GMG COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

Year ended June 30, 2010

	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Debt Service	Capital Projects	Total
Other expenditures:							
Facilities acquisition and construction services	-	-	-	109,745	-	3,282,437	3,392,182
Principal on long-term debt	-	-	-	-	260,000	-	260,000
Interest on long-term debt	-	-	-	-	268,547	-	268,547
Services on long-term debt	-	-	-	-	950	-	950
AEA flowthrough	147,736	-	-	-	-	-	147,736
	<u>147,736</u>	<u>-</u>	<u>-</u>	<u>109,745</u>	<u>529,497</u>	<u>3,282,437</u>	<u>4,069,415</u>
Total expenditures	<u>4,388,700</u>	<u>114,128</u>	<u>106,364</u>	<u>116,495</u>	<u>529,497</u>	<u>3,282,437</u>	<u>8,537,621</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(109,490)</u>	<u>6,582</u>	<u>(27,274)</u>	<u>(113,732)</u>	<u>(143,107)</u>	<u>(3,071,510)</u>	<u>(3,458,531)</u>
Other financing sources:							
Proceeds from issuance of loans	-	-	-	300,000	-	-	300,000
Operating transfers in	-	-	-	-	142,219	334,372	476,591
Operating transfers out	-	-	-	(334,372)	-	(142,219)	(476,591)
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,372)</u>	<u>142,219</u>	<u>192,153</u>	<u>300,000</u>
Net change in fund balances	<u>(109,490)</u>	<u>6,582</u>	<u>(27,274)</u>	<u>(148,104)</u>	<u>(888)</u>	<u>(2,879,357)</u>	<u>(3,158,531)</u>
Fund balances beginning of year	<u>897,484</u>	<u>34,647</u>	<u>101,069</u>	<u>149,652</u>	<u>7,695</u>	<u>4,019,925</u>	<u>5,210,472</u>
Fund balances end of year	<u>\$ 787,994</u>	<u>41,229</u>	<u>73,795</u>	<u>1,548</u>	<u>6,807</u>	<u>1,140,568</u>	<u>2,051,941</u>

See notes to financial statements.

## GMG COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
to the Statement of Activities

Year ended June 30, 2010

Net change in fund balances - total governmental funds (Exhibit E) \$ (3,158,531)

**Amounts reported for governmental activities in the Statement of  
Activities are different because:**

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities  
This represents the change from FY09 to FY10

10,584

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 3,106,414	
Depreciation expense	<u>(177,784)</u>	2,928,630

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

Issued	(300,000)	
Repaid	<u>260,000</u>	(40,000)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.

Other postemployment benefits		(24,040)
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is reported as an expenditure in the funds when due. In the Statement of Activities, interest expense is recorded as the interest accrues, regardless of when it is due.

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Change in net assets of governmental activities (Exhibit B)		<u>\$ (282,684)</u>
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See notes to financial statements.

## GMG COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Fund

Year ended June 30, 2010

	<u>School Nutrition</u>
Operating revenue:	
Local sources:	
Charges for services	\$ <u>132,280</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	73,986
Benefits	29,640
Services	15,535
Supplies	131,605
Depreciation	<u>9,986</u>
Total operating expenses	<u>260,752</u>
Operating (loss)	<u>(128,472)</u>
Non-operating revenues:	
Interest on investments	35
State sources	2,567
Federal sources	<u>104,234</u>
	<u>106,836</u>
Change in fund net assets	(21,636)
Net assets beginning of year	<u>72,495</u>
Net assets end of year	<u>\$ 50,859</u>

See notes to financial statements.



## GMG COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2010

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of services	\$ 131,261
Cash payments to employees for services	(102,846)
Cash payments to suppliers for goods or services	(123,942)
Net cash (used by) operating activities	<u>(95,527)</u>
Cash flows from non-capital financing activities:	
State grants received	2,567
Federal grants received	82,388
Net cash provided by non-capital financing activities	<u>84,955</u>
Cash flows from investing activities:	
Interest on investments	<u>35</u>
Net increase in cash and cash equivalents	(10,537)
Cash and cash equivalents beginning of year	<u>29,584</u>
Cash and cash equivalents end of year	<u>\$ 19,047</u>
<b>Reconciliation of operating (loss) to net cash used by operating activities:</b>	
Operating (loss)	\$ (128,472)
Adjustments to reconcile operating profit (loss) to net cash (used by) operating activities:	
Depreciation	9,986
Commodities used	21,846
Decrease in inventory	1,352
(Decrease) in accrued salary and benefits	780
(Decrease) in unearned revenue	(1,019)
	<u>\$ (95,527)</u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2010, the District received federal commodities valued at \$21,846.

## GMG COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2010

	<u>Agency</u>
<b>Assets</b>	
Cash	\$ 1,352
Land	<u>111,650</u>
<b>Total assets</b>	<u>113,002</u>
 <b>Liabilities</b>	
Other payables	<u>113,002</u>
 <b>Total liabilities</b>	<u>113,002</u>
 <b>Net assets</b>	 <u><u>\$ -</u></u>

See notes to financial statements.

# GMG COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2010

### (1) Summary of Significant Accounting Policies

GMG Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of Garwin and Green Mountain, Iowa, and agricultural area in Marshall and Tama Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

#### A. Reporting Entity

For financial reporting purposes, GMG Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. GMG Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Tama and Marshall County Assessor's Conference Boards.

#### B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets*, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The District has elected to present all funds as major funds for clarity of presentation.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenue not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Student Activity Fund is used to account for extra curricular activities conducted on behalf of the students.

The Management Levy Fund is utilized for the payment of insurance, unemployment and early retirement benefits.

The Physical Plant and Equipment Levy Fund is utilized to account for the maintenance and equipping of the District's facilities.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

#### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2009.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The District had no intangible assets meeting the threshold limit of \$50,000 approved by the Board of Education. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	2,000
Other furniture and equipment	2,000
Intangible assets	50,000

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year-end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2010.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ending June 30, 2010, expenditures in the non-instructional programs function exceeded the budget amount. The District did not exceed its General Fund unspent authorized budget.

#### **(2) Cash and Pooled Investments**

The District's deposits at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments in at June 30, 2010.

### (3) Capital Assets

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 54,500	-	-	54,500
Construction in progress	<u>534,045</u>	<u>2,934,027</u>	<u>-</u>	<u>3,468,072</u>
	<u>588,545</u>	<u>2,934,027</u>	<u>-</u>	<u>3,522,572</u>
Capital assets being depreciated:				
Buildings	6,519,514	-	-	6,519,514
Furniture and equipment	<u>1,185,067</u>	<u>172,387</u>	<u>-</u>	<u>1,357,454</u>
Total capital assets being depreciated	<u>7,704,581</u>	<u>172,387</u>	<u>-</u>	<u>7,876,968</u>
Less accumulated depreciation for:				
Buildings	2,821,854	90,989	-	2,912,843
Furniture and equipment	<u>954,239</u>	<u>86,795</u>	<u>-</u>	<u>1,041,034</u>
Total accumulated depreciation	<u>3,776,093</u>	<u>177,784</u>	<u>-</u>	<u>3,953,877</u>
Total capital assets being depreciated, net	<u>3,928,488</u>	<u>(5,397)</u>	<u>-</u>	<u>3,923,091</u>
Governmental activities, capital assets, net	<u>\$ 4,517,033</u>	<u>2,928,630</u>	<u>-</u>	<u>7,445,663</u>
<b>Business type activities:</b>				
Furniture and equipment	\$ 133,185	-	-	133,185
Less accumulated depreciation	<u>89,717</u>	<u>9,986</u>	<u>-</u>	<u>99,703</u>
Business type activities capital assets, net	<u>\$ 43,468</u>	<u>(9,986)</u>	<u>-</u>	<u>33,482</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				<u>\$ 177,784</u>
Business type activities:				
Food service operations				<u>\$ 9,986</u>

### (4) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Balance Beginning Year	Additions	Reductions	Balance End of Year	Due Within One Year
Net OPEB Liability	\$ -	24,040	-	24,040	-
USDA Rural Economic Development Loan	-	300,000	15,000	285,000	30,000
General Obligation Bonds	4,910,000	-	200,000	4,710,000	210,000
Revenue Bonds	<u>1,700,000</u>	<u>-</u>	<u>45,000</u>	<u>1,655,000</u>	<u>55,000</u>
Total	<u>\$6,610,000</u>	<u>324,040</u>	<u>260,000</u>	<u>6,674,040</u>	<u>295,000</u>



## Revenue Bonds Payable

In April, 2009, the District issued revenue bonds for construction. The revenue bond bears no interest for the duration of the repayments. The revenue bonds will be repaid using statewide sales, services and use tax collected in the Capital Projects Fund. Current year collections of \$203,699 are more than sufficient to cover the annual payment of approximately \$140,000. Details of the District June 30, 2010 revenue bond indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Bond Issue of April 27, 2009</u>			
	<u>Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	3.50%	\$ 55,000	74,145	129,145
2012	3.50	60,000	72,220	132,220
2013	3.50	70,000	70,120	140,120
2014	3.50	75,000	67,670	142,670
2015	3.50	75,000	65,045	140,045
2016-2020	3.50-4.50	410,000	280,700	690,700
2021-2025	4.50-5.00	470,000	183,588	653,588
2026-2029	5.00-5.20	440,000	57,437	497,437
Total		<u>\$1,655,000</u>	<u>870,925</u>	<u>2,525,925</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$1,700,000 bonds issued in April 2009. The bonds were issued for the purpose of financing a portion of the costs of remodeling and addition to the high school building. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2029. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 60 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$2,525,925. For the current year \$45,000 of principal and \$82,030 of the interest was paid on the bonds and total statewide sales, services and use tax revenues were \$203,699.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$144,620 of the proceeds from the issuance of the revenue bonds are deposited in a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account. The balance of this account at June 30, 2010 was \$144,620.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District has complied with all of the revenue bond provisions during the year ended June 30, 2010.

## General Obligation Bonds Payable

Details of the District's June 30, 2010 general obligation bonded as follows:

<u>Year Ending June 30,</u>	<u>Bond Issue of July 1, 1999</u>			
	<u>Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	3.25%	\$ 210,000	179,827	389,827
2012	3.25	215,000	173,003	388,003
2013	3.25	225,000	166,015	391,015
2014	3.25	235,000	158,702	393,702
2015	3.50	245,000	151,065	396,065
2016-2020	3.00-3.80	1,289,000	627,450	1,907,450
2021-2025	4.00-4.25	1,150,000	406,600	1,556,600
2026-2029	4.35-4.65	1,150,000	134,375	1,284,375
Total		<u>\$4,710,000</u>	<u>1,997,037</u>	<u>6,707,037</u>

### **(5) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.30% of their annual salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$177,403, \$163,364, and \$145,876 respectively, equal to the required contributions for each year.

### **(6) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$147,736 for year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

### **(7) Risk Management**

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### **(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$142,219
Capital Projects	Physical Plant and Equipment Levy	<u>334,372</u>
		<u>\$476,591</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(9) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 50 active and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which result in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefits plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$24,040
Interest on net OPEB Obligation	-
Adjustment to annual required contribution	-
Annual OPEB Cost	24,040
Contributions made	-
Increase in net OPEB obligation	24,040
Net OPEB obligation beginning of year	-
Net OPEB obligation end of year	\$24,040

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$0 to the medical plan.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$24,040	0.00%	\$24,040

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$195,815, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$195,815. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,762,000 and the ratio of the UAAL to covered payroll was 7.1%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress presented as Required Supplementary Information, in the section following the Notes to Financial Statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the frozen entry age method was used. The actuarial assumptions include a 2.50% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from 2006 Society of Actuaries study.

Projected claim costs of the medical plan are \$298 per month for retirees less than age 65. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(10) Construction Commitment**

The District has entered into a contract totaling \$3,391,033 for the construction of an addition to the high school and a remodeling project. As of June 30, 2010, cost of \$3,162,478 had been incurred against the contract. The balance of \$228,555 remaining at June 30, 2010 will be paid as work on the projects progress.

**(11) USDA Rural Economic Development Loan**

The District borrowed \$300,000 through the United States Department of Agriculture (USDA) Rural Economic Development Loan Program. The loan is interest free and requires quarterly payments of \$7,500 each. Payments are to be made from the statewide sales, services and use tax. There is approximately \$60,000 available annually after required payments are made on the District's revenue bonds. The loan will be paid as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>
2011	\$ 30,000
2012	30,000
2013	30,000
2014	30,000
2015	30,000
2016	30,000
2017	30,000
2018	30,000
2019	30,000
2020	15,000
	<u>285,000</u>

## Required Supplementary Information

**GMG COMMUNITY SCHOOL DISTRICT**

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2010

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance
	Actual	Actual	Actual	Original	Final	
Revenues:						
Local sources	\$ 3,167,502	132,315	3,299,817	3,333,911	3,333,911	(34,094)
State sources	1,575,487	2,567	1,578,054	1,981,363	1,981,363	(403,309)
Federal sources	336,101	104,234	440,335	305,000	305,000	135,335
Total revenues	5,079,090	239,116	5,318,206	5,620,274	5,620,274	(302,068)
Expenditures/Expenses:						
Instruction	3,223,607	-	3,223,607	3,525,461	3,525,461	301,854
Support services	1,244,599	-	1,244,599	1,328,525	1,328,525	83,926
Non-instructional programs	-	260,752	260,752	240,000	240,000	(20,752)
Other expenditures	4,069,415	-	4,069,415	4,404,776	4,404,776	335,361
Total expenditures/expenses	8,537,621	260,752	8,798,373	9,498,762	9,498,762	700,389
Excess (deficiency) of revenues over (under) expenditures/expenses	(3,458,531)	(21,636)	(3,480,167)	(3,878,488)	(3,878,488)	398,321
Other financing sources (uses)	300,000	-	300,000	-	-	300,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing uses	(3,158,531)	(21,636)	(3,180,167)	(3,878,488)	(3,878,488)	698,321
Balance beginning of year	5,210,472	72,495	5,282,967	5,373,321	5,373,321	(90,354)
Balance end of year	\$ 2,051,941	50,859	2,102,800	1,494,833	1,494,833	607,967

See accompanying independent auditor's report.

**GMG COMMUNITY SCHOOL DISTRICT**

**Note to Required Supplementary Information - Budgetary Reporting**

**Year ended June 30, 2010**

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2010, expenditures in the non-instructional programs function exceeded the budgeted amount. The District did not exceed the General Fund unspent authorized budget.

**GMG COMMUNITY SCHOOL DISTRICT**

Schedule of Funding Progress for the  
Retiree Health Plan  
(In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	Jul 1, 2009	\$0	\$196	\$196	0.0%	\$2,762	7.1%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.



## Other Supplementary Information

## GMG COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Drama	1,696	-	337	1,359
Vocal	1,742	1,802	2,465	1,079
HS Cheerleading	-	5,143	3,590	1,553
Future Teachers	176	-	-	176
Spanish Club	154	180	221	113
Class of 2014	6	554	-	560
Class of 2009	2,424	-	2,424	-
Class of 2010	758	2,195	2,953	-
Class of 2012	446	1,481	355	1,572
Class of 2011	951	10,272	9,934	1,289
Class of 2013	308	444	-	752
Interest	69	615	185	499
SH Student Council	1,990	11,321	12,354	957
JH Student Council	931	298	290	939
National Honor Society	912	3,955	4,026	841
Yearbook	(9,816)	18,759	11,846	(2,903)
Athletics	25,018	43,676	44,012	24,682
Dance Team	1,809	2,312	4,111	10
HS SADD	96	3,234	3,276	54
Volleyball	1,608	-	-	1,608
Elementary	2,069	10,521	8,568	4,022
Class of 2105	-	120	23	97
Elementary Student Council	75	219	294	-
Weightlifting	1,025	3,309	2,539	1,795
JEL	200	300	325	175
Totals	<u>34,647</u>	<u>120,710</u>	<u>114,128</u>	<u>41,229</u>

See accompanying independent auditor's report.

## GMG COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Fund

Year ended June 30, 2010

Account	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Kienzle Farm	\$ 113,009	9,091	9,098	113,002

See accompanying independent auditor's report.

**GMG COMMUNITY SCHOOL DISTRICT**

Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds

For the Last Ten Years

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
<b>Revenues:</b>										
Local sources:										
Local tax										
Tuition	\$ 1,976,063	\$ 1,980,054	1,896,066	1,921,034	1,714,967	1,716,960	1,639,511	1,639,770	1,507,106	1,520,854
Other	978,243	984,434	910,556	823,345	715,953	560,856	514,681	522,976	402,370	325,049
State sources	213,196	195,286	227,475	233,166	293,939	159,301	178,438	229,726	233,368	438,985
Federal sources	1,575,487	1,849,877	1,637,262	1,598,542	1,664,396	1,560,545	1,447,237	1,442,940	1,363,095	1,483,209
	336,101	159,081	117,313	116,480	120,997	124,088	126,711	116,125	51,116	89,831
<b>Total</b>	<b>\$ 5,079,090</b>	<b>\$ 5,168,732</b>	<b>\$ 4,788,672</b>	<b>\$ 4,692,567</b>	<b>\$ 4,510,252</b>	<b>\$ 4,121,750</b>	<b>\$ 3,906,578</b>	<b>\$ 3,951,537</b>	<b>\$ 3,557,055</b>	<b>\$ 3,857,928</b>
<b>Expenditures:</b>										
Instruction	\$ 3,223,607	\$ 3,180,244	2,840,875	2,747,632	2,591,270	2,464,777	2,336,123	2,149,911	2,220,970	2,122,978
Support services:										
Student	19,623	-	1,432	-	-	-	-	72,896	77,954	78,132
Instructional staff	122,597	121,466	121,705	135,500	105,812	108,056	128,468	108,724	138,324	116,974
Administration	517,862	456,226	462,626	486,484	452,913	426,146	420,295	380,672	375,326	343,958
Operation and maintenance										
of plant	360,622	352,688	313,784	362,544	306,398	304,610	299,448	293,022	334,251	302,287
Transportation	223,895	305,835	224,787	227,957	229,965	183,904	147,865	169,306	118,509	187,009
Central Support	-	-	-	-	-	8,006	11,193	8,739	-	-
Non-instructional programs										
Community service operation	-	-	1	6,407	2,400	-	-	-	7,798	7,849
Other expenditures:										
Facilities acquisition	3,392,182	528,625	158,653	218,476	515,390	211,660	170,629	163,976	292,499	2,986,886
Debt Service										
Principal	260,000	2,791,250	209,375	204,375	160,000	150,000	145,000	140,000	130,000	125,000
Interest and service										
charges	269,497	127,590	134,876	143,208	152,807	161,808	170,408	178,806	186,608	193,957
AEA flowthrough	147,736	121,637	119,335	117,271	114,952	112,048	110,391	113,434	109,865	115,941
<b>Total</b>	<b>\$ 8,537,621</b>	<b>\$ 7,985,561</b>	<b>\$ 4,587,449</b>	<b>\$ 4,649,854</b>	<b>\$ 4,631,907</b>	<b>\$ 4,131,015</b>	<b>\$ 3,939,820</b>	<b>\$ 3,779,486</b>	<b>\$ 3,992,104</b>	<b>\$ 6,580,971</b>

# BRUCE D. FRINK

Certified Public Accountant

## Member:

- American Institute of Certified Public Accountants

- Iowa Society of Certified Public Accountants

## Services:

- Individual, Partnership and Corporate Tax Preparation

- Year Round Tax Planning

- Electronic Filing

- Payroll & Sales Tax Preparation

- I.R.S. Representation

- Monthly/Quarterly Write-Up

- Data Processing Services

- Payroll Preparation

- Computerized Financial Statements

- Bank Loan Assistance

## Plus:

- Over 30 years of Expertise and Experience

- Evenings & Saturdays Available by Appointment

- Extended Hours During Tax Season

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

To the Board of Education of the  
GMG Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of GMG Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 3, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered GMG Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of GMG Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GMG Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items I-A-10 and I-B-10 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-C-10 to be a significant deficiency.

## Compliance and Other Matters

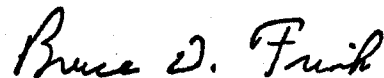
As part of obtaining reasonable assurance about whether GMG Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

GMG Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit GMG Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of GMG Community School District and other parties to whom GMG Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of GMG Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



**BRUCE D. FRINK**  
**Certified Public Accountant**

March 3, 2011

GMG COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2010

**Part I: Findings Related to the General Purpose Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**INTERNAL CONTROL DEFICIENCIES:**

I-A-10      Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response accepted.

I-B-10      Auditor Drafting of the Financial Statements and Related Footnote Disclosures

Comment - As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. SAS 115, an auditing standard from the American Institute of Certified Public Accountants, requires auditors to communicate this situation as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of the presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size. However, based on this auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the District's management. As in prior years, we have instructed management to review a draft of the auditor prepared financial statements in detail for their accuracy, we have answered any questions they might have, and encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your financial statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation - It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - We feel our review of the draft financials is adequate for us to accept this risk.

Conclusion - Response accepted.

GMG COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2010

**Part I: Findings Related to the General Purpose Financial Statements:**  
(continued)

I-C-10      Financial Reporting

Comment - During the audit, we identified material amounts of payables in the Capital Projects Fund which were not recorded in the District's financial statements. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Recommendation - The District should implement procedures to ensure all payables are identified and included in the District's financial statements.

Response - We will double check these in the future to avoid missing any payables.

Conclusion - Response accepted.

**Part II: Other Findings Related to Required Statutory Reporting:**

II-A-10      Certified Budget - During the year ended June 30, 2010, expenditures in the non-instructional programs function exceeded the budgeted amounts. The District did not exceed the General Fund unspent authorized budget.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

II-B-10      Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-C-10      Business Transactions - No Business transactions between the District and District officials or employees were noted.

II-D-10      Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-E-10      Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-10      Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.

II-G-10      Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

II-H-10      Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.



GMG COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2010

**Part II: Other Findings Related to Required Statutory Reporting:**  
(continued)

II-I-10      Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-J-10      Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

II-K-10      Financial Condition - The District's yearbook account in the Student Activity Fund had a deficit balance at June 30, 2010.

Recommendation -The District should investigate alternatives to eliminate deficit balances.

Response - We are monitoring the fund and are working to eliminate the deficit balances. During FY10, the deficit was lowered by almost \$7,000.

Conclusion - Response accepted.

II-L-10      Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds. However, we did note that \$27,930 of Phase II revenues were improperly included into Teacher Salary Supplement Funds, thus reducing the designated fund balance by that amount at June 30, 2010.

Recommendation -We will send documentation of such to the Department of Education in order to adjust their records. The District needs to adjust this amount of funds to the unreserved general fund balance.

Response - We will do the adjustment.

Conclusion - Response accepted.

II-M-10      Statewide sales, services and use tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning balance	\$ -
Statewide sales, services and use tax revenue	203,699
Expenditures/transfers out:	
School infrastructure:	
Building	<u>203,699</u>
Ending balance	\$ <u>-</u>